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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
ChairmanGARY PIERCE
CommissionerPAUL NEWMAN
CommissionerSANDRA D. KENNEDY
CommissionerBOB STUMP
Commissioner

Arizona Corporation Commission

DOCKETED

APR 14 2010

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IN THE MATTER OF THE APPLICATION
OF SOUTHWEST GAS CORPORATION
FOR APPROVAL TO REVISE THE RATE
COLLECTED THROUGH ITS DEMAND-
SIDE MANAGEMENT ADJUSTOR
MECHANISM

DOCKET NO. G-01551A-10-0040

DECISION NO. 71643ORDER

Open Meeting
March 31 and April 1, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation ("Southwest" or "the Company") is engaged in providing natural gas within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. Southwest serves approximately 982,000 customers in the counties of Gila, La Paz, Cochise, Graham, Maricopa, Pima, Greenlee, Mohave, Pinal and Yuma. Of these customers, approximately 940,000 are Residential, while 41,000 are Commercial; Southwest also serves a smaller number of Industrial, Irrigation and Transportation customers.

Background: DSM Adjustor Mechanism and Reset

3. Pursuant to Commission Decision No. 60352 (August 29, 1997), each year Southwest files an application reset its Demand-side Management ("DSM") adjustor rate. Once approved, the reset rate is then effective for twelve months, from April 1st through the following March 31st. The purpose of the DSM adjustor mechanism is to recover the cost of the Company's Commission-approved DSM, or energy efficiency, programs, and the DSM adjustor rate is based

1 on projections. The annual reset of the rate is used to true-up over- or under-collections¹, and to
2 align the DSM adjustor rate with changes in energy efficiency spending.

3 *The Company Proposal*

4 4. On February 2, 2010, Southwest filed an application for approval to revise the rate
5 collected through its Demand-Side Management ("DSM") adjustor mechanism for the period from
6 April 1, 2010 through March 31, 2011.² The Company proposes to change its DSM adjustor rate
7 from \$0.00423 per therm to a negative \$0.00072 per therm which would result in a credit. A credit
8 at the level of \$0.00072, combined with the Company's projected DSM spending for the effective
9 period, would substantially reduce or eliminate Southwest's over-collected DSM balance over
10 twelve months.

11 5. The Company's 2010 DSM spending is projected to increase from \$1,358,536³ in
12 2009 to \$2,244,300. The existing (and still accumulating) DSM adjustor over-collection would
13 more than cover the proposed budget, even taking into account energy efficiency spending through
14 March 2010. The result would be a \$423,844 balance, which the Company proposes to pay down
15 through the \$0.00072 credit.

16 6. The projected over-collected balance, estimated recovery and estimated spending
17 are set out below, in table format. The table also lists the remaining DSM balance and shows how
18 the requested credit was calculated:

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25 ¹ Under- and over-collection arise from the difference between the amounts recovered through the DSM adjustor and
26 the amounts actually spent on energy efficiency programs. Interest is paid on both over- and under-collected balances,
based on the one-year nominal constant maturities rate.

27 ² In March 2009, in Decision No. 70959, the Commission ordered that the DSM adjustor rate continue at the level set
28 in March 2008 (in Decision No. 70198). Additional details are provided herein, in the section titled "Previous
Application and Proposed Portfolio Modification."

³ Revised figure, based on Staff's communications with the Company.

Projected Spending, Over-collections and Estimated Recovery: Current Budget	
2010 Projected DSM Program Costs (Current program)	\$2,244,300
DSM over-collection as of December 31, 2009	(\$2,026,032)
Estimated recovery, January through March 2010	(\$993,553)
Estimated spending, January through March 2010	\$351,441
Total Remaining DSM Balance	(\$423,844)
Applicable Therms ⁴	587,533,292
(\$423,844)/587,533,292 = Southwest's Proposed adjustor reset rate	(\$0.00072)

7. Staff notes that the Company's proposed spending is based on Southwest's current portfolio of DSM programs, rather than the enhanced program which was filed on June 29, 2009, and which is currently being reviewed by Staff. The \$3,069,300 budget for the modified program represents a significant increase over the \$2,244,300 budget proposed for the existing portfolio. This higher budget would require a per-therm charge, rather than the Company's proposed per-therm credit, in order to cover the increased spending and decrease the possibility of an under-collection. (The budget for the modified program is discussed herein, with respect to Staff's proposal for the adjustor rate.)

Historical Approved and Actual Spending

8. On February 23, 2006, in Decision No. 68487, Southwest's annual DSM funding was set at \$4,385,000. On December 24, 2009, in Decision No. 70665, the Commission approved stepped increases to Southwest's annual DSM funding, starting with \$4.4 million in 2009 and increasing the overall budget by \$1 million per year through 2012.

9. In practice, actual spending has been well below the approved levels, as shown in the table below:

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⁴ Southwest customers on the G30 (optional) and B1 (bypass) rate schedules do not pay the DSM adjustor rate. The therms used by these customers are not, for this reason, used in calculating the per-therm DSM adjustor rate.

Year	Commission-approved Spending Level	Annual DSM Spending
2006	\$4,385,000 (Decision No. 68487)	\$555,681
2007	\$4,385,000 (Decision No. 68487)	\$1,028,519
2008	\$4,385,000 (Decision No. 68487)	\$940,297
2009	\$4,400,000 (Decision No. 70665) ⁵	\$1,358,536
2010	\$5,400,000 (Decision No. 70665)	\$2,244,300 (projected)
2011	\$6,400,000 (Decision No. 70665)	n/a
2012	\$7,400,000 (Decision No. 70665)	n/a

10. According to the Company, the downturn in the economy has led to the following reasons for low spending levels:

- (i) consumers have delayed purchases and spent less on DSM upgrades to homes and businesses;
- (ii) retailers have stocked fewer items, to decrease inventory and overhead costs;
- (iii) restaurant closures have meant there is more leased and used commercial equipment on the market (leased and used equipment would be ineligible for the Commercial Equipment program);
- (iv) incentives are insufficient to motivate purchases of new, high efficiency equipment at a time when the value of short-term savings outweighs long-term energy savings; and
- (v) customers are having difficulty getting financing for DSM upgrades.

11. In addition, retailers and plumbers did not initially stock high efficiency appliances (such as high efficiency water heaters) eligible for program participation. (However, the Company has worked successfully to promote the stocking of high efficiency appliances, and this has contributed to higher participation rates for the Consumer Products program.)

12. The Company also cites the need for approval of its enhanced DSM portfolio, which includes additional measures and programs. The application relating to the advanced portfolio is discussed in the next section.

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⁵ December 24, 2008.

Previous Application and Proposed Portfolio Modification

13. In its previous application to reset the DSM adjustor (filed February 2, 2009), the Company had asked to reduce its DSM adjustor rate from \$0.00423 per therm to \$0.00390 per therm, to reflect spending and participation levels that were lower than anticipated in 2008. Staff recommended, instead, that the DSM adjustor be reset as a \$0.00099 per therm credit for the April 2009 through March 2010 billing cycle, in order to limit over-collections and to reflect a projected 2009 spending level of \$1,250,000.

14. The Commission expressed concern over the Company's low spending levels for energy efficiency, and decided to hold the matter over until a subsequent Open Meeting. In Decision No. 70959, the Commission ordered that the adjustor rate be maintained at \$0.00423, stating that:

"We have reservations about reducing the DSM adjustor rate at this time because we believe that the value of energy efficiency programs is significant."

15. Following Decision No. 70959, and in response to Commission concerns, Southwest Gas on June 11, 2009, filed the previously-referenced proposal to supplement and modify its DSM plan. This application proposes to (i) allow funding flexibility, so that funding can be moved between programs and measures in response to participation rates; (ii) modify existing programs, including the addition of new measures; and (iii) add two new DSM programs.⁶

The Staff Proposal

16. Staff notes that Southwest's DSM spending increased 44.5 percent, or \$418,239, from 2008 to 2009, primarily due to increased participation. In addition, Southwest projects spending of \$3,069,300 for the modified portfolio currently under review, or \$825,000 more than the projected 2010 budget for the current portfolio. Given the trend toward increased program participation, and the higher spending that is likely to occur if the modified portfolio is approved in whole or in part, it would be premature to reset the DSM adjustor rate to a credit. Staff believes it

⁶ On October 7, 2009, in Decision No. 71289, the Commission approved a separate Southwest application adding two measures to the Company's Consumer Products program on a pilot basis, and expanding the eligibility of the water heater measure to different capacity models.

would be more reasonable to reset the adjustor at level that would accommodate a more active set of DSM programs, while still reducing the DSM adjustor over-collection.

17. Staff has recommended that the Commission adopt a \$0.00200 DSM adjustor rate ("Scenario 2") reflective of improved participation and spending, rather than the DSM credit of \$0.00072 proposed by Southwest. The \$0.00200 recommended by Staff, although lower than the current adjustor rate, is sufficient to fund an enhanced and more active energy efficiency portfolio, while still reducing the over-collection.

18. The calculation for Staff's proposed DSM adjustor rate is shown below:

Projected Spending, Over-collections and Estimated Recovery: Modified Budget	
2010 Projected DSM Program Costs (Current program)	\$2,244,300
DSM over-collection as of December 31, 2009	(\$2,026,032)
Estimated recovery, January through March, 2010	(\$993,553)
Estimated spending, January through March, 2010	\$351,441
Total Remaining DSM Balance	\$423,944
Total DSM Balance ÷ applicable therms	
Applicable Therms	587,533,292
Proposed adjustor reset rate	\$0.00200
Estimated recovery from \$0.00200 adjustor rate	(\$1,175,067)
Estimated over-collected balance, 3/31/2011	(\$1,598,911)

Retaining Current Adjustor Rate

By Staff's estimate, retaining the current DSM adjustor rate of \$0.004230 per therm would result in an over-collection of almost \$3 million at the end of twelve months, based on the \$2,244,300 million budget projection for the current portfolio. Staff estimates that the \$3,069,300 budget projected for the modified portfolio would result in an over-collection which, although lower, is still likely to exceed \$2 million. The projected over-collections at the \$0.004230 per therm level are primarily due to the existing large over-collection.⁷ At Staff's recommended \$0.00200 rate, the projected over-collection with the \$2,244,300 projected 2010 portfolio budget is expected to be \$1,598,911.

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⁷ Based on a zero balance, with the DSM adjustor neither over- nor under- collected, the DSM adjustor rate required to fund the \$3,069,300 modified budget would be \$0.005224, higher than the current DSM adjustor rate.

1 Bill Impacts

2 19. The bill impacts are as follows: (i) for the Company's proposal, credits to
3 customers range from 1¢ to 4¢ based on average monthly usage, for the entire bill; (ii) for Staff's
4 proposal, charges to customers range from 2¢ to 12¢ based on average monthly usage, for the
5 entire bill; and (iii) for maintaining the current adjustor rate, charges to customers range from 4¢ to
6 26¢ based on average monthly usage, for the entire bill. The monthly bill impacts are shown by
7 month, in Exhibit 1.

8 Energy Efficiency Revolving Loan Fund

9 20. In various proceedings involving energy efficiency, the Commission has heard
10 considerable public comment on the issue of financing energy efficiency. We note that several
11 utilities across the country have developed revolving loan funds for this purpose. We believe that
12 the Company's current demand side management offerings would benefit from a financing
13 component, including a revolving loan fund with on the bill financing, made available to
14 customers.

15 21. The budget proposed by Staff estimates an over-collected balance of over \$1.5
16 million by March 31, 2011. We believe that the Company should utilize these estimated funds to
17 develop a revolving loan fund with an on the bill financing component, which would enhance its
18 current and future demand side management programs.

19 22. We believe that under such a program, customers of Southwest could be given the
20 opportunity to receive loans for the up-front costs associated with implementing energy efficiency
21 measures such as efficient gas furnaces or ductwork, and could pay off these loans through the
22 savings they achieve on their gas bills created by the energy efficiency measures that have been
23 installed. The revolving loan fund could be launched through the DSM adjustor surplus, or
24 through the DSM adjustor in combination with a partnership between Southwest and a bank, or
25 potentially in partnerships with the State Energy Office and/or the electric utilities in its service
26 territory, and could then be replenished by the loans that are paid off by customers. Given the
27 interest among customers in Southwest's service territory in implementing energy efficiency
28 measures, and the need to deploy energy efficiency as widely as possible to assist as many

1 customers as possible in keeping their bills low, we believe it is in the public interest to require
2 Southwest to file, by July 30, 2010, a proposed energy efficiency revolving loan fund with
3 convenient customer access to and repayment of the financing, possibly including on-the-bill
4 repayment for Commission consideration. If possible, the Company should seek out participation
5 in the fund by the State Energy Office, which is currently administering stimulus funding for
6 energy efficiency efforts, and partnerships with the electric utilities in its service territory, but if it
7 finds that the State Energy Office or electric utilities are unable to participate, the Company should
8 not delay the formation of its proposed program. The Company should also investigate the
9 possibility of partnering with banks and credit unions in addressing how the revolving loan fund
10 would be initiated. Additionally, we believe that Southwest should craft its proposal for an energy
11 efficiency revolving loan fund in conjunction with interested community groups in the Company's
12 service territory.

13 Summary of Staff Recommendations

14 23. Staff has recommended that the Commission adopt the \$0.00200 per therm DSM
15 adjustor rate proposed by Staff reflective of improved participation and spending, rather than the
16 DSM credit of \$0.00072 proposed by Southwest.

17 CONCLUSIONS OF LAW

18 1. Southwest is an Arizona public service corporation within the meaning of Article
19 XV, Section 2, of the Arizona Constitution.

20 2. The Commission has jurisdiction over Southwest and over the subject matter of the
21 application.

22 3. The Commission, having reviewed the application and Staff's Memorandum dated
23 March 16, 2010, concludes that it is in the public interest to approve the DSM adjustor reset level
24 proposed by Staff, as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that the DSM adjustor rate for Southwest Gas Corporation be reset to \$0.00200 per therm, as discussed herein.

IT IS FURTHER ORDERED that Southwest Gas Corporation shall file for Commission consideration, by July 30, 2010, a proposed energy efficiency revolving loan fund with convenient customer access to and repayment of the financing, possibly including on-the-bill repayment for energy efficiency measures such as ductwork and efficient gas furnaces, and shall work with interested community groups in Southwest Gas Corporation's service territory in the crafting of the proposal. The proposal shall include a description of the steps Southwest Gas Corporation took to work with local community groups in the formation of the proposal.

IT IS FURTHER ORDERED that Southwest Gas Corporation shall seek out participation in the fund by the State Energy Office, which is currently administering stimulus funding for energy efficiency efforts, and partnerships with the electric utilities in its service territory, but if it finds that the State Energy Office or the electric utilities are unable to participate, Southwest Gas Corporation shall not delay the formation of the proposed program and shall investigate the possibility of partnering with banks and credit unions in addressing how the revolving loan fund will be initiated.

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1 IT IS FURTHER ORDERED that Southwest Gas Corporation shall craft its proposal for an
2 energy efficiency revolving loan fund in conjunction with interested community groups in
3 Southwest Gas Corporation's service territory.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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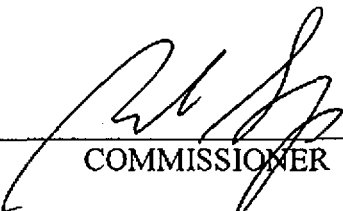
7 CHAIRMAN

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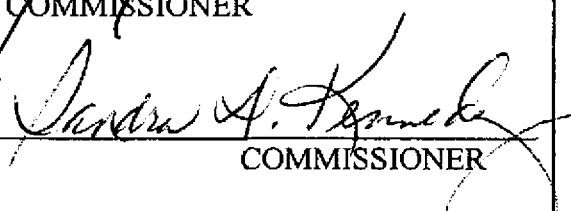
9 COMMISSIONER

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11 COMMISSIONER

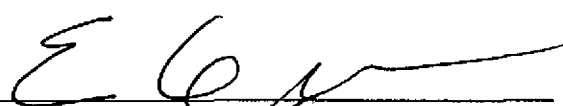
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13 COMMISSIONER

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15 COMMISSIONER

16 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
17 Executive Director of the Arizona Corporation Commission,
18 have hereunto, set my hand and caused the official seal of
19 this Commission to be affixed at the Capitol, in the City of
20 Phoenix, this 14th day of April, 2010.

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22 ERNEST G. JOHNSON
23 EXECUTIVE DIRECTOR

24 DISSENT: _____

25 DISSENT: _____

26 SMO:JMK:lhmkOT

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